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COMMUNITY-BASED ECONOMIC DEVELOPMENT
ORGANIZATIONS IN MINNESOTA

by
Jeffrey D. Freeman

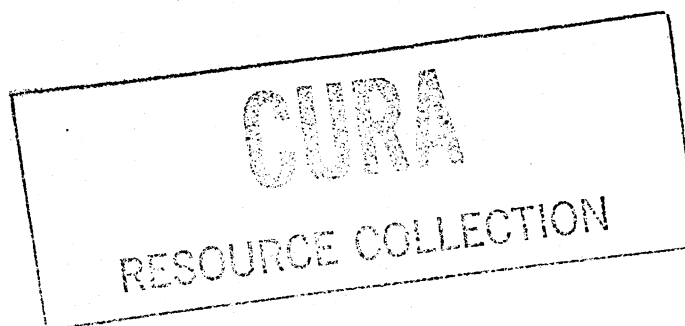
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CONTENTS

	<u>Page</u>
PURPOSE	v
SECTION I: SUMMARY	1
Community-Based Economic Development (CED)	1
The Organizations	2
CED Projects and Results	3
Critical Needs	3
SECTION II: CED PROJECTS AND ACTIVITIES	5
Direct Development Projects	5
<u>Table:</u> Direct Development Projects by Fourteen Minnesota CED organizations	6
Indirect Development Activities	16
SECTION III: CRITICAL NEEDS	18
Leadership	18
Funding for Administration and Planning	19
Professional Staff	20
Political Marketing	21
Technical Capacity	23
Project Capital	25
CONCLUSION	27
APPENDIX A: STUDY METHODS	29
APPENDIX B: PARTICIPATING ORGANIZATIONS	30

PURPOSE

The primary purpose of this report is to provide public and private policy makers with a means to better understand non-profit community-based economic development (CED) organizations and to recognize some of their accomplishments and capabilities. CED organizations and their accomplishments have often gone unnoticed by many in the public and private sectors because the organizations are highly decentralized and their development projects are usually small-scale efforts. As a result, many policy makers in the public and private sectors do not fully understand CED organizations and often feel uncomfortable dealing with them. It is hoped that this report will help to focus public and private sector attention on the potential of CED organizations and lead to increased support for existing, as well as emerging, organizations.

A secondary purpose of this report is to help emerging CED organizations by discussing some of the characteristics of, and methods used by, successful CED organizations. Establishing a new organization can be a difficult and discouraging task. Nevertheless, the economic problems facing an increasing number of urban and rural communities illustrates the need for more CED organizations.

This report is the result of a study of fourteen community-based economic development organizations in Minnesota. Ten of these organizations are located in the Twin Cities, four are located in outstate areas. Each organization was examined closely with regard to its organizational development and characteristics, its funding sources, and the economic development projects and activities which it has undertaken.

SECTION I. SUMMARY

COMMUNITY-BASED ECONOMIC DEVELOPMENT

Recent years have seen a great deal of activity in the field of community-based economic development (CED) in the Twin Cities and around the state. Many non-profit community-based organizations have established themselves as legitimate actors in the economic development process by undertaking a wide range of business development projects which have stimulated economic activity and created many jobs in low-income communities. The need for the continued growth and success of these organizations, and the creation of new organizations in other communities, has never been greater. CED organizations stimulate economic activity precisely where it is needed the most, in low-income urban and rural communities where adequate development has not occurred even under the best of economic conditions.

But CED organizations are more than simply catalysts for economic development. They provide a means by which community residents and, in some cases, local business people can band together to take an active role in shaping the economic future of their neighborhoods. Without the opportunity for involvement, community people feel powerless to halt the economic decline which they see occurring around them. This sense of powerlessness often leads to despair which only serves to hasten the decline.

Through community-based economic development organizations, people can play an important role in revitalizing their own neighborhoods. The most abundant and available resource which community people have is their commitment to their community. A CED organization allows people to put this commitment to work. The benefits of community-based economic development are not only job creation and revitalization of low-income communities, but also the creation of a sense of power and accomplishment among the people who live and work in these communities.

Of course, in order to be effective in community development, CED organizations need more than just dedicated community members. CED organizations must be viewed by both the public and private sectors as partners in the community development process. As partners, these organizations need access to many of the same technical and financial resources used by the public and private sectors in the design and implementation of development projects. To complement these resources, CED organizations provide an intimate knowledge of their individual communities. As a result of this knowledge, CED organizations are in a position to design development projects and programs that address the specific problems and opportunities existing in their communities.

THE ORGANIZATIONS

There are many types of nonprofit development organizations. This report focuses on a subset of this group--organizations that are "community-based" and that conduct economic development activities. "Community-based" organizations are those whose membership and boards of directors consist primarily of community residents or community businesspeople or both. While many community-based organizations are involved in housing development and other activities, this report examines community-based organizations that concentrate at least a significant part of their efforts on small business development and job creation. The following organizations participated in this study:

- American Indian Business Development Corporation, Minneapolis
- Community Development of Little Falls
- HELP Development Corporation, St. Paul
- Minneapolis North Development Corporation, Minneapolis
- Peoples Community Enterprises, Duluth
- Phillips Neighborhood Improvement Association, Minneapolis
- Powderhorn Development Corporation, Minneapolis
- Project for Pride in Living, Minneapolis
- Region II Community Development Corporation, Bemidji
- University Avenue Development Corporation, St. Paul
- West Bank Community Development Corporation, Minneapolis
- West Seventh Development Corporation, St. Paul
- White Earth Development Corporation, White Earth
- Whittier Alliance, Minneapolis

This list is a broad sampling of CED organizations in the state. The organizations follow no set pattern. Rather, the characteristics of each organization and the activities it conducts are determined largely by the characteristics of each community and the available resources. As such, many of the organizations are different with regard to their size, board composition, experience and technical expertise. However, despite these and other differences, each of the organizations has played an important role in the economic development of its community by undertaking development projects in response to problems or needs identified by community members.

This report does not include all CED organizations in the state. Other community-based organizations in addition to the fourteen listed here have also conducted economic development activities.

CED PROJECTS AND RESULTS

All together, these fourteen organizations have created 605 and retained 238 private sector jobs in their communities by directly participating in various business development projects. These projects cost slightly over \$17 million, of which approximately \$11.2 million came from private loans and investments, \$5.9 million from public (government) sources, and \$200,000 from private grants and contributions. The combined public/private leverage ratio for these projects was 1/1.93. Each job cost an average of \$18,300 in total investment. However, the average public cost per job was only \$6,600. (Because job figures were unavailable from some projects, the costs of those projects were not included when computing these average cost per job figures. The cost, funding sources, and job figures for each project are listed in Section II.)

Many of the projects involved an organization obtaining and packaging financing from various sources for a new or existing business owned by another party. However, in a few cases, a CED organization has become the owner (or part owner) of a business venture, or owner of a commercial facility that was leased to privately-owned businesses. In one case, an organization has been able to influence businesses to locate in its community by acquiring vacant commercial buildings and property and then renovating the buildings and packaging parcels of land for sale to privately owned businesses.

In addition to these projects, many of the organizations studied have also conducted a variety of activities designed to indirectly stimulate economic development in their communities. Some of the organizations have provided technical assistance counseling to individual community businesses. A number of organizations have also provided various types of services and information to the local business community as a whole, such as conducting market studies and coordinating promotional activities. While these indirect development activities have benefited community businesses in a number of ways, the actual results are difficult to measure objectively. As such, this report does not attempt to quantify these results.

CRITICAL NEEDS

Despite the differences which exist among CED organizations and their communities, there are a number of needs all CED organizations must meet to be effective. This report examines six such "critical needs." The ability of a CED organization to recognize and effectively meet these needs is very important to the growth and success of the organization. These critical needs are as follows:

- leadership
- funding for administration and planning
- professional staff
- political marketing
- technical capacity
- project capital

The methods which CED organizations use to address these needs depend greatly on the goals and abilities of each particular organization. The next section describes the projects and activities of the different CED organizations. The last section of this report discusses some of the reasons why these needs are so critical and will describe some of the ways in which CED organizations attempt to meet them.

SECTION II. CED PROJECTS AND ACTIVITIES

DIRECT DEVELOPMENT PROJECTS

Economic development projects in which the fourteen organizations have played a direct role are described in a table on the following pages (6-13). The cost of each project, its sources of financing, and the resulting number of jobs created or retained in the community are included. For almost all of the projects, this information was provided by the organizations themselves. All costs associated with each project have been included in the total project cost figures, including any construction and land costs.

Job figures for each project are identified either as "new" or "retained." New jobs are those which were created by a new or expanding business in the community. Retained jobs are those which remained in the community as a result of a project which assisted a business in danger of failing or considering moving out of the community. The jobs listed are permanent positions. Temporary construction jobs were not included. Each part-time job was counted as 0.5.

Exact job figures were unavailable for a few of the projects. In cases where the particular organization could make a reasonably accurate estimate, their estimate was accepted and identified as such. Where accurate estimates could not be made, or where new or retained jobs could not be directly attributed to the project, the "jobs" column was marked N/A (not available).

Abbreviations used in the following summaries:

- CDBG (Community Development Block Grant)
- CDC (Community Development Corporation)
- EDA (Economic Development Administration)
- GMMHC (Greater Minneapolis Metropolitan Housing Corporation)
- HUD (Housing and Urban Development)
- IRB (Industrial Revenue Bonds)
- N/A (not available)
- SBA (Small Business Administration)
- TIF (Tax Increment Financing)
- UDAG (Urban Development Action Grant)

DIRECT DEVELOPMENT PROJECTS BY FOURTEEN MINNESOTA CED ORGANIZATIONS

American Indian Business Development Corporation, Minneapolis

Project	Costs & Funding Sources		Jobs	
Shopping Center 1982	\$1,300,000	EDA	43.5	new
	1,119,000	UDAG		
	477,000	CDBG		
	350,000	TIF		
	750,000	private meeting		
	1,750,000	retailer equity		
	<u>5,746,000</u>			
TOTALS	3,246,000	public	43.5	new
	2,500,000	private		
	<u>\$5,746,000</u>		<u>43.5</u>	

Community Development of Little Falls, Inc.

Project	Costs & Funding Sources		Jobs	
Crestliner (acquisition)		N/A	60	new
Rich Prairie Livestock	\$ 180,000	private bank	5	retained
Aqua Care	200,000	CDBG	8	retained
	81,000	private sources		
	<u>281,000</u>			
Artistic Cultured Marble		N/A	5	retained
Samson Industries		N/A	80	retained
Engelhardt Poultry Breeding	256,000	IRB	2	new
Nordic Crestliner (expansion)		N/A	30	new
TOTALS*	610,000	public	92	new
	1,537,000	private	98	retained
	<u>\$2,147,000</u>		<u>190</u>	

*Totals here include costs for projects above where specific amounts were not available for each project.

HELP Development Corporation, St. Paul

Project	Costs & Funding Sources		Jobs	
Community Business Assistance Program (packaged loans for 9 existing businesses) 1971-75	\$ 29,500	Model Cities private banks	19	retained
	<u>280,000</u>			
	309,500			
 TOTALS	 29,500	 public	 19	 retained
	<u>280,000</u>	 private		
	\$ 309,500		<u>19</u>	

NOTE: HELP Development Corporation was also directly involved in the unsuccessful development effort of the Unidale Shopping Mall. For a number of reasons, this project has experienced serious problems. Because this study was not designed to explore these specific problems, the Unidale project has not been included.

Minneapolis North Community Development Corporation, Minneapolis

Project	Costs & Funding Sources		Jobs	
Plymouth Ave. Shopping Center Rehabilitation 1982	\$ 63,000	CDBG owner equity	N/A	
	<u>7,000</u>			
	70,000			
 <u>In progress:</u>				
Estes Funeral Chapel 1982-83	425,000	IRB owner equity	N/A	
	<u>75,000</u>			
	500,000			
 TOTALS	 63,000	 public	 N/A	
	<u>507,000</u>	 private		
	\$ 570,000			

Peoples Community Enterprises, Duluth

Project	Costs & Funding Sources		Jobs	
Zenith Insulating Products (insulated window shades) 1981	\$ 25,500	CDBG state CDC program	5	new
	<u>10,800</u>			
	36,300			
 TOTALS	 \$ 36,300	 public	 5	

Phillips Neighborhood Improvement Association, Minneapolis

<u>Project</u>	<u>Costs & Funding Sources</u>		<u>Jobs</u>	
Phillips Works, Inc. (bindery) 1982	\$ 60,000	corporate donations	6	new
 TOTAL	 \$ 60,000	 private	 6	

Powderhorn Development Corporation, Minneapolis

<u>Project</u>	<u>Costs & Funding Sources</u>		<u>Jobs</u>	
SBA 502 Loan Program (26 loans made) 1971-75	\$ 41,000 617,000 <u>658,000</u>	SBA private banks	78	new (est.)
Commercial Building & Property Acquisition Rehab & Sale (7 projects) 1976-83	2,606,000	private banks	166	new (est.)
 TOTALS	 41,000 3,223,000 <u>\$3,264,000</u>	 public private	 244 <u>244</u>	 new (est.)

NOTE: Job estimates made by Rose McNellis, Executive Director, PDC

Project for Pride in Living, Minneapolis

<u>Project</u>	<u>Costs & Funding Sources</u>		<u>Jobs</u>	
Multi-purpose Factory 1982	\$ 125,000	private donations	27	new
 TOTAL	 \$ 125,000	 private	 27	

Region II Community Development Corporation, Bemidji

Project	Costs & Funding Sources		Jobs	
Northland Lumber and Steel (steel fabrication) 1982-83	\$ 51,300	state CDC program	21	new
	8,700	Region II Rev. Loan Fund		
	60,000	EDA		
	25,000	private bank		
	72,000	owner equity		
	<u>217,000</u>			
Anderson Fabrics (custom draperies) 1980-82	69,000	state CDC program	26	new
	6,000	Region II Rev. Loan Fund		
	100,000	EDA		
	45,000	private bank		
	73,000	owner equity		
	22,000	in-kind contribution		
	<u>315,000</u>			
Debs Community Coop 1981	600	Region II Rev. Loan Fund	N/A	
	10,000	American Lutheran Church		
	10,000	private bank		
	1,000	membership and in-kind		
	<u>21,600</u>			
Bejou Coop Store 1980	14,000	Region II Rev. Loan Fund	4.5	new
	10,000	American Lutheran Church		
	15,000	private bank		
	20,000	membership		
	5,000	in-kind		
	<u>64,000</u>			
Gillman Grocery 1981	13,000	Region II Rev. Loan Fund	2	new
	13,000	owner equity		
	31,000	private bank		
	<u>57,000</u>			
Grund's Mill (wood processing) 1982	12,000	Region II Rev. Loan Fund	4.5	new
	40,000	private bank		
	33,000	owner equity		
	<u>85,000</u>			
TOTALS	334,600	public	58	new
	425,000	private		
	<u>\$ 759,600</u>		<u>58</u>	

University Avenue Development Corporation, St. Paul

<u>Project</u>	<u>Costs & Funding Sources</u>		<u>Jobs</u>
Exterior Grant Program (grants made to 40 businesses) 1978-81	\$ 50,000 <u>200,000</u> 250,000	CDBG private sources	N/A
SBA 502 Loan Program (4 new businesses, 3 existing businesses) 1979-81	170,000 <u>1,110,000</u> 1,280,000	SBA private banks	35 new (est.) 30 retained (est.)
TOTALS	220,000 <u>1,310,000</u> \$1,530,000	public private	35 new (est.) 30 retained (est.) <u>65</u>

NOTE: Job estimates made by Steve Erdahl, President, UADC

West Seventh Development Corporation, St. Paul

<u>Project</u>	<u>Costs & Funding Sources</u>		<u>Jobs</u>
SBA 502 Loan Program (1 business start-up, 6 business expansions) 1977-79	\$ 216,800 22,900 615,100 <u>81,200</u> 936,000	SBA CDBG private banks owner equity	N/A
TOTALS	239,700 <u>696,300</u> \$ 936,000	public private	N/A

West Bank Community Development Corporation, Minneapolis

Project	Costs & Funding Sources		Jobs	
West Bank Coop Grocery 1977	\$ 32,200	state CDC program	14.5	new
	80,000	HUD revenue sharing		
	30,000	private bank		
	1,000	stock purchases		
	<u>143,200</u>			
West Bank Coop Pharmacy 1980-81	55,000	state CDC program	3	new
	40,000	Campaign for Human Dev.	10	retained
	45,000	private bank		
	56,000	note from seller		
	<u>196,000</u>			
Block 21 Revitalization (re- volving loans to 4 existing businesses) 1981	50,000	state CDC program	30	retained
	125,000	private banks		
	<u>175,000</u>			
<u>In progress:</u>				
Riverside Cafe 1982-83	40,000	Episcopal Diocese Loan	5	new
	20,000	owner's equity	24	retained
	18,000	West Bank CDC Rev. Loan Fund		
	42,000	state CDC program		
	40,000	CDBG		
	50,000	private bank		
	<u>210,000</u>			
Extempore Cafe 1982-83	12,000	private donations	2	new
	73,000	CDBG	5	retained
	2,600	member contributions		
	35,000	state CDC program		
	<u>122,600</u>			
Dudley Riggs Theater 1982-83	72,000	owner's equity	10	new
	24,300	state CDC program	20	retained
	41,000	UDAG recapture loan		
	25,000	GMMHC Loan		
	75,000	private bank		
	<u>237,300</u>			
TOTALS	515,500	public	34.5	new
	588,600	private	89	retained
	<u>\$1,104,100</u>		<u>123.5</u>	

White Earth Community Development Corporation, White Earth

<u>Project</u>	<u>Costs & Funding Sources</u>		<u>Jobs</u>	
White Earth Garment Mfg. Inc. 1982	\$ 7,200	Off. of Econ. Oppor.	18	new
	10,200	state CDC program		
	150,000	Reservation Bus. Dev. Fund		
	<u>167,400</u>			
Ojibway Wood Products (saw mill) 1983	16,000	state CDC program	24	new
	300,000	HUD		
	<u>316,000</u>			
TOTALS	\$ 483,400	public	42	new

Whittier Alliance, Minneapolis

<u>Project</u>	<u>Costs & Funding Sources</u>		<u>Jobs</u>	
Commercial Rehab. Loan Program (2 business start-ups, 3 business expansions) 1982	\$ 84,500	CDBG	20	new
	84,500	private banks		
	<u>169,000</u>			
Commercial Exterior Rehab. Subsidy Program (grants and loans to 11 existing businesses) 1979-80	6,800	foundation grant		N/A
	61,500	private sources		
	<u>68,300</u>			
TOTALS	84,500	public	20	new
	152,800	private		
	<u>\$ 237,300</u>			

TOTALS FOR ALL ORGANIZATIONS

Organization	Financial Totals		Job Totals	
	Public	Private	New	Retained
American Indian Business Development Corporation, Minneapolis	\$3,246,000	\$ 2,500,000	43.5	-
Community Development of Little Falls	610,000	1,537,000	92	98
HELP Development Corporation, St. Paul	29,500	280,000	-	19
Minneapolis North Community Development Corporation	63,000	507,000	N/A	N/A
Peoples Community Enterprises, Duluth	36,300	-	5	-
Phillips Neighborhood Improvement Association, Minneapolis	-	60,000	6	-
Powderhorn Development Corporation	41,000	3,223,000	244	-
Project for Pride in Living, Minneapolis	-	125,000	27	-
Region II Community Development Corp., Bemidji	334,600	425,000	58	-
University Avenue Development Corp., St. Paul	220,000	1,310,000	35	30
West Bank Community Development Corp., Minneapolis	515,500	588,600	34.5	89
West Seventh Development Corporation, St. Paul	239,700	696,300	N/A	N/A
White Earth Community Development Corporation, White Earth	483,400	-	42	-
Whittier Alliance, Minneapolis	84,500	152,800	20	-
TOTALS	\$5,903,500	\$11,404,700	607	236
GRAND TOTALS	\$17,308,200		843	

Public/Private Ratio = 1/1.93

Average total cost per job: \$18,342; range of \$132,091 to \$4,630; median of \$11,509.*
 Average public cost per job: \$6,583; range from \$74,620 to \$0; median of \$4,225.*

*The costs of projects where job figures were unavailable were excluded when calculating these figures. The project costs used in these calculations were \$15,462,300 total, \$5,550,200 public.

The CED projects described in the table follow no set pattern. The various types of projects and the diversity of financing packages illustrate the creativity and resourcefulness of CED organizations. The organizations have found ways to make the most of their limited resources in order to address specific economic needs and opportunities in their communities. They have done this not to make a profit for themselves, but out of a commitment to their communities and a desire to see them improve.

The process of planning and acquiring financing for these projects was often quite complex. In most cases, the process took a year or longer for each project. Almost all of the projects required at least two different sources of financing, many needed four or more. All of these sources, whether public or private, required that the organization sufficiently demonstrate that the proposed project was feasible and viable before they would agree to provide funds for the project. Even then, in most cases each source agreed to provide only a portion of the total funds needed for the project.

Project costs per job, whether a job created or retained, and the leverage ratios of public to private money vary considerably among the various projects listed. However, these figures cannot be used as the sole basis for evaluating individual organizations and their projects because the circumstances in each case are different. Economic needs and available resources vary from community to community and from organization to organization.

A major factor in the costs per job of a particular project is the amount of new construction needed for the project. The largest project listed in this report, the construction of a new shopping center, showed a much higher cost per job than any of the other projects. Nevertheless, because there were virtually no retail businesses in the community, the construction of a new shopping center was needed to attract new businesses. In addition to the new jobs that created, the center provided badly needed shopping facilities for community residents. New construction is a costly but often necessary component of job creation in physically deteriorating communities.

In other communities, CED organizations have been able to use smaller scale, less expensive methods to stimulate business activity and create new jobs. Many organizations have packaged loans for existing businesses to assist them in a variety of ways such as purchasing equipment, renovating or expanding existing buildings, hiring additional employees, or meeting short-term operating expenses. A number of organizations have also put together financing packages to help new businesses get started and meet initial expenses. By focusing their development efforts on the needs of individual small businesses, these organizations have been able to strengthen their community economies and create new jobs at a relatively low cost. Without these efforts, the economic

conditions in these communities could eventually decline to a point where much more expensive development projects would be necessary.

Sources of financing were usually some combination of public and private resources. Because of the risks associated with small business, private banks are unwilling to lend the total amount needed for a business development project. Since many entrepreneurs in low-income communities lack the necessary equity to start a new business or improve an existing one, some type of public funding is usually needed to leverage private funds. The actual leverage ratio for a particular project depends on a number of factors, including the type of business and its chances for success, the skill and experience of the business owner, and the skill and experience of the CED organization which puts the project together.

Four organizations have financed projects totally through private sources. However, only one of these organizations used actual loans from private banks. These loans were used to purchase pieces of real estate and prepare them for lease or sale to new businesses. Private financing could be obtained because the loans were secured by the value of the land and buildings purchased. One other privately financed project was a special non-retail venture funded by corporate contributions. In two other communities where CED organizations lacked this type of access to charitable sources, similar ventures were started with public funds. The remaining privately financed project was a construction project financed through an Industrial Revenue Bond.

Small business loan programs create an excellent means for CED organizations to play a direct role in business development in their communities. A few of the organizations were originally formed as local development corporations in order to administer small business loans through the now extinct Small Business Administration 502 program. Three other organizations have established their own revolving loan programs. Two of these programs have been capitalized through the Minnesota Community Development Corporation (CDC) Pilot Program, the third through Community Development Block Grant (CDBG) funds. The advantage of these revolving programs is that the capital obtained by the CED organizations can be re-used in perpetuity, thereby providing an ongoing resource to community businesses and the organization. These funds also contribute to each community's sense of control since the use of these funds is determined by the CED itself. A number of other organizations are currently exploring possible methods for establishing their own revolving loan programs.

A small business loan program benefits both the loan recipients and the CED organization. Because the organization is not looking to make a profit on the loans, the businesses can receive financing at below market interest rates. The staff and board

members of the CED organization receive "hands-on" experience in small business finance. This experience builds the organization's capacity to undertake additional development projects. In addition, since a loan program is used to leverage additional private loans, it allows the organization to build a working relationship with local banks and assures that the loan applications will be reviewed according to accepted banking practices.

The projects listed in this section illustrate a critical role which CED organizations can play in directly stimulating business activity and job creation in their communities. CED organizations are in a unique position to search out and package available sources of financing in the public and private sectors in order to address specific needs and opportunities in their communities.

INDIRECT DEVELOPMENT ACTIVITIES

Many of the organizations included in this report also conduct activities that indirectly contribute to economic development in their communities. Again, the types and extent of these indirect activities vary considerably among the CEDs examined in this study. As with the direct development projects discussed above, the specific activities conducted by each organization depend upon the organization's abilities and the needs of its community.

Technical assistance counseling to individual small businesses in their communities is provided by a number of the CEDs. This assistance has generally been in the areas of financial planning, management, and marketing. Organizations have often provided technical assistance in conjunction with their efforts to secure financing for a community business.

A CED organization that is able to provide technical assistance to small businesses is a valuable asset to the community. Small businesses have a high rate of failure. Many small entrepreneurs lack some of the technical skills they need to deal with the wide range of business problems that can arise. By helping local business owners address their particular problems, a CED organization can play an important role in helping new businesses get started, and existing businesses stabilize and perhaps expand their operations. The result is a healthier community economy and the retention and possible creation of jobs in the community.

Some of the organizations that provide this type of assistance have been able to acquire in-house staff with the technical business skills to assist local businesses. Other organizations have arranged for successful community business owners who are members of their boards of directors to assist struggling businesses on a volunteer basis. Both

methods have been effective, although professional staff members are usually in a better position to provide ongoing support to businesses that need more extensive assistance.

Other indirect development activities involve the local business community as a whole. Some organizations have worked with city officials to plan and implement public improvement projects to make their commercial areas more attractive to shoppers. A few organizations have helped community business owners coordinate joint promotional activities. One organization held a conference where executives from large corporations and city officials met with minority and women small business owners to learn of the services these businesses provide. The conference helped a number of these small businesses acquire new contracts for services, and, in at least one case, hire additional employees.

Several organizations have conducted or contracted for various types of technical studies in their communities, such as market studies, land use plans, and architectural design plans. In addition to helping organizations plan future development projects, studies such as these can also stimulate private development. One organization conducted a study which identified a market and a need for a number of different types of businesses in the community. This information was made public, and within a few years, three new businesses were started that met some of the opportunities identified in the study.

Indirect development activities benefit both the CED organization and community businesses. The activities help the organization establish relationships with local business owners and allow the organization to gain insight into the problems and needs of small businesses in their community. Many organizations conduct indirect development activities as a way of establishing themselves in the community and building their technical capacity to undertake more difficult direct development projects in the future. These activities can also help the organization identify possible development opportunities and plan specific projects. Local businesses benefit from the assistance and services provided by the organization. Through involvement with the organization and its activities, local businesses can also benefit from an increased level of coordination and cooperation among themselves and with the community.

SECTION III. CRITICAL NEEDS OF CED ORGANIZATIONS

While studying the fourteen organizations included in this report, a number of issues emerged that are common to each of the organizations. Six critical needs are examined in this section: leadership, funding for administration and planning, professional staff, political marketing, technical capacity, and project capital. The ability of a CED organization to recognize and effectively address these needs is crucial to the long-term growth and success of the organization.

LEADERSHIP

Obviously, it is much easier to identify the critical issues than to effectively address them in a real life situation. The accomplishments that CED organizations have made are due largely to the abilities of their leaders. In most cases, the initial leaders of a CED organization emerge directly from the community itself. Often these individuals do not have any previous formal experience in the development process. However, they do have a tremendous commitment to their community and the drive to build their organization despite inevitable setbacks.

Board Leadership

During its early stages, a CED organization needs strong leadership from one or two key individuals who can bring together an effective board of directors, and when necessary, build coalitions or relationships with existing groups or organizations in the community. Most of the organizations studied have boards of directors that are led by community residents, while a few organizations have boards that are dominated by community businesspeople. It is important that board leaders recognize the distrust that may exist between community residents and local businesspeople. Whether they were residents or members of the business community, the ability of the organization's leaders to form a board with some representation from the other "side" was an important key to establishing a strong community base of support.

In a number of cases, a CED organization was formed in a community where one or more community organizations already existed. Again, it was important for the organization's leaders to gain the trust of the existing groups. In most cases, informal relationships were established between the CED organization and the existing groups. However, in a few instances, these relationships were formalized by allowing the existing organizations to appoint or elect representatives to sit on the CED board.

During the early stages of the organization, board leaders must also function as promoters for the organization. As discussed earlier, obtaining an initial level of funding to hire staff is a critical step in the growth of a CED organization. Because of the lack of a track record at this stage, board leaders must convince funding sources of the organization's viability and potential by demonstrating their commitment and the support of the community for the organization.

Staff Leadership

As a CED organization grows and matures, effective staff leadership also becomes an important key to the success of the organization. Over time, a staff leader will acquire more and more responsibility for the specific activities of the organization, while the leaders of the board will shift their attention away from these activities and focus more on long-range planning and goal setting for the organization. In most of the established organizations which were examined, staff leaders have assumed major responsibility for such activities as managing development projects, fundraising, building the technical capacity of the organization, establishing and maintaining working relationships with key actors outside the community, and maintaining community relations.

FUNDING FOR ADMINISTRATION AND PLANNING

Obviously, one of the most critical needs of CED organizations is funding. Obtaining necessary funding is especially difficult for an emerging organization before it has established a track record of successful projects. As noted earlier, an organization must invest a considerable amount of time and effort developing its technical capacity and conducting necessary planning and feasibility work before it can begin to undertake actual development projects and programs. While these efforts often indirectly stimulated and assisted private development efforts, most of the organizations studied were not able to implement any development projects of their own for one to two years following their formation.

The growth and development of a CED organization during its early years is often hindered by a lack of funds. A certain and consistent level of funding is an important key to organization growth. In order for an emerging organization to become established, it is very helpful if at least one funding source is willing to invest in the long-term growth of the organization. Initially, funds must be provided on the basis of an organization's potential for stimulating economic development, rather than its actual track record.

Most of the organizations studied were able to acquire only one source of funding during their first few years. Although there were a number of public and private funding sources used by the various organizations, the two most common were private foundations and the state Community Development Corporation (CDC) Pilot Program.

As an organization matures and establishes a track record of successful projects, it is often able to acquire additional sources of funding. A number of established organizations have obtained a significant level of funds from two or more sources. The most commonly used funding sources are, again, private foundations and the CDC Program. A few organizations have also obtained Community Development Block Grant (CDBG) funds distributed by their cities.

Acquiring multiple sources of funding for administration and planning activities provides a CED organization with some measure of financial stability. This stability can relieve staff of some of the time and effort required simply to meet monthly expenses, and thus enable the organization to become more productive. Flexible funds, as opposed to project specific funds, are most valuable to an established organization. Flexible funding allows an organization to be more creative and innovative in developing strategies to address community needs.

Self-Generating Income

One other attractive way for a CED organization to enhance its financial stability is by generating some of its own funds in order to achieve some degree of self-sufficiency. Most of the organizations studied are currently generating some of their own income, either by providing technical assistance to businesses on a fee for service basis or through ownership or partial ownership of some type of business venture. The ability to generate some of its own funds can be extremely important to the long-term success of an organization, however, this ability usually cannot be developed until the organization has reached a mature stage in terms of its technical capacity and track record.

PROFESSIONAL STAFF

A paid, full-time staff is an important key to an effective CED organization. Most of the organizations studied have at least one staff person, many have a staff of two or more. Some of the organizations have hired active community residents as staff members, others have hired persons from outside the community who have had prior experience in the field of development. Whatever their background, CED staff members must have the ability to learn new skills quickly, the drive and enthusiasm to stick with a project despite recurring setbacks, and the flexibility to perform a wide range of tasks.

under constantly changing conditions. They must also appreciate the need for community participation in major decisions, in spite of the extra work and time this requires, since it is this participation that defines and is the basis for the CED process.

Typically, a CED organization is formed by a group of community residents (and in some cases, local business owners) who are concerned about declining economic conditions in their community. These people play an essential role by serving as volunteer board members responsible for determining the overall mission and goals of the organization. However, the demands of running the necessary day to day operations of the organization are simply too time consuming to be conducted by volunteers.

In order to be successful, CED organizations must constantly be concerned with organizational and project planning, building their technical capacity, establishing working relationships with various public and private sector actors, fundraising, and other critical activities. Not only are these activities too time consuming to be handled on a part-time volunteer basis, they also often require certain technical skills which volunteers may not possess. This is not to imply that active community residents cannot function as CED staff members; residents have become effective staff members for a number of organizations. However, in order to develop the necessary skills and experience as quickly as possible, staff members should be able to devote themselves on a full-time basis to the organization.

Organizations which had no staff during their first few years developed very slowly and accomplished little in terms of economic development during that period. In most cases, the sooner an organization was able to acquire full-time staff, the sooner it was able to mature to a point where it could begin to implement projects and programs to stimulate economic development in its community.

POLITICAL MARKETING

As mentioned before, CED organizations have few resources directly under their control. In order for CED organizations to plan and implement various development projects and programs, they must obtain funding and support from institutions outside their communities. However, there are few organizations or programs specifically designed to assist and support CED efforts. CED organizations are largely left to their own initiative to find and obtain the resources they need.

In order to obtain these resources, CED organizations must establish working relationships with important actors in government agencies, private corporations, and charitable foundations. "Political marketing" is a conscious, ongoing strategy by a CED organization to develop a network of relationships with key actors in the field of

development. These efforts must first simply present the organization as a legitimate participant in the development process. These key actors must be convinced that the CED organization has the ability or the potential to effectively address economic problems in its community. Secondly, political marketing must be used to gain the financial support and assistance of others for specific organization activities. These activities may range from hiring staff for administration and planning to financial packaging for a specific development project.

It is important for a CED organization to develop a broad network of relationships in all three sectors--public, private, and non-profit. Usually, an organization must combine funding from a number of different sources in order to carry out its various activities and projects. Also, most funding is provided only on a short-term basis (only for one specific project or one year at a time). As a result, a CED organization's budget is often quite fragile, making the organization very vulnerable to funding cutbacks. The wider an organization's base of support, the better its chances to survive as an effective, long-term force for economic development in its community.

Relationships with the Community

As a CED organization works to build relationships with individuals and organizations outside the community, it should remember that the community itself can be its most important resource.

A strong base of community support is an extremely valuable asset for a CED organization. Involving community residents in organization activities, such as identifying community problems and conducting long-range planning, can help an organization establish a solid relationship with its community and ensure that organization strategies are consistent with the real needs of the community.

One of the organizations studied was originally formed around the idea of starting a small manufacturing plant in the community. After surveying and meeting with community residents, the organization found that, most of all, the residents wanted and needed additional shopping facilities in the area. Based on this information the organization began to pursue the idea of developing a community shopping center. Many problems arose throughout the planning process, but with the help of solid support from the community, these problems were overcome and the shopping center was built.

A CED organization should constantly be sensitive to possible negative reactions in the community which could result from the organization's actions. A CED organization which does not develop and maintain a sensitivity to community concerns can easily antagonize the residents of the community. The lack of a solid community base can

create problems for the organization, particularly in terms of fundraising and project implementation.

TECHNICAL CAPACITY

The level of technical skills possessed by, or available to, a CED organization is a key factor in the ability of the organization to successfully plan and implement economic development projects. As organizations attempt increasingly sophisticated development projects, it becomes critical that they find ways to build their technical capacity.

Learning Through Experience

One of the best ways for organizations to improve their technical capacity is simply for staff members to learn by doing. Most of the organizations studied spent much of their first few years conducting various planning and indirect development activities in their communities. The products of these activities included such things as community development plans, market surveys and analysis, business feasibility studies, and design studies.

The experience that staff members gain by conducting these activities tremendously increases their capacity to undertake future development projects and programs. The products of these activities also serve as a framework for considering future development opportunities and often provide a foundation for planning specific development projects. In addition, these activities can serve to educate residents and local business people in the development process and can directly involve them in producing a coordinated strategy for economic development in their community.

Using Outside Professionals

CED organizations have also successfully used a number of other methods to increase their technical capacities. Many organizations have recruited one or more development professionals to serve on their board of directors. These professionals have included attorneys, architects, corporate officers, accountants, realtors, bankers, and university professors. The degree of participation by these professionals in organization activities varies among the organizations. In some organizations, professionals on the board have become directly involved in planning and implementing specific development projects. In other organizations, these professionals serve only as advisors and do not become directly involved with actual projects. Whatever their level of participation, having professional people as board members can be a tremendous asset for a CED organization.

Many organizations have increased their technical capacity by hiring staff members who already possess specialized technical skills acquired through formal training or experience outside the community. By hiring staff members with previously acquired development skills an organization can quickly increase its technical sophistication. A similar method employed by some organizations is to contract with professional consultants for work on a specific development project. Consultants may especially be necessary when an organization is undertaking a large-scale or particularly complicated project. In some cases, financing for such a project may not be available unless experienced consultants are hired. Consultants should not be used as a substitute for in-house staff. Consultants are used most effectively when they work closely with organization staff so that, in addition to performing specific activities, they are building staff capacity to perform similar activities on future projects.

An organization which uses professionals from outside the community, whether as board members, staff members or consultants, must be sensitive to possible negative reactions from community residents. These professionals will, at least initially, lack an in-depth knowledge of the community. Community residents may become suspicious of the organization--an organization which they may perceive as becoming dominated by outsiders who do not understand the real needs and problems of their community. When a CED organization uses development professionals to build its technical capacity it must continue to maintain its relationship with community residents. The organization must remain sensitive to community concerns and seek to involve residents in organization activities as much as possible.

Seminars and Workshops

Many of the organizations in this report have participated in various types of community development seminars and workshops in order to learn about new economic development strategies and increase their technical capabilities. CED staffs and, in some cases, board members, have attended training sessions offered by various groups both in the Twin Cities area and around the country. These sessions allow CED members to meet with community development professionals who are willing to share their technical expertise and experience. They also provide CED organizations with an opportunity to come together to discuss common problems and concerns and to share information on successful development projects and strategies.

PROJECT CAPITAL

While many CED organizations conduct activities which can indirectly stimulate economic development, organizations must become directly involved in the development process in order to have the greatest impact on economic needs in their communities. In order to implement their development projects, organizations must have access to sources of financing. In most cases, both public and private sources of project capital are needed.

Public Sources

Various government agencies and programs are important sources of project capital for most of the organizations examined. Some organizations have been able to obtain CDBG funds for various projects. Funds for various CED projects have also occasionally been available through the Small Business Administration, the Economic Development Administration, and the Department of Housing and Urban Development. At the state level, the Minnesota CDC Pilot Program has been an important source of project capital for four of the organizations.

The state CDC Pilot Program is unique among Minnesota public funding sources. The program provides grants to qualified Community Development Corporations both for administration and planning, and for project capital. Project capital grants are made to a Community Development Corporation for a specific business development project. The CDC can then use the money either to make a loan to, or equity investment in, the particular business. The program is unique because it is designed specifically to provide funds to community-based organizations, whereas these organizations must compete with many others for funds from other government sources.

Private Sources

In many cases, public sources of project financing require participation by the private sector. In a few cases, private corporations and foundations have provided grants for specific ventures. However, in many cases it appears that these organizations prefer to provide funds for administration and planning, rather than for project financing.

In most cases, private project capital comes in the form of owner equity or loans from private banks. While a few organizations have been able to undertake projects financed totally by private sources, this usually is not possible. The small entrepreneurs which CED organizations often attempt to assist do not have the necessary equity to finance a business start-up or expansion themselves, and private banks are often understandably unwilling to loan the total amount necessary to finance a project. CED

organizations represent an important key to community development because of their ability to obtain various sources of public financing, and, where possible, to use those funds to leverage additional private monies.

CONCLUSION

This report has shown how many community-based organizations in Minnesota have become effective participants in the development process and have been successful at creating jobs and stimulating economic activity within their communities. However, as important as it is, a revitalized community economy is not an end in itself for CED organizations. Rather, it is a product of a process through which community members can directly participate in improving the economic conditions of their communities. The real purpose of the community development movement is to empower community residents (and local business owners) to gain some measure of control over their environment.

Too often, publicly and privately initiated development projects in low-income communities do not allow for meaningful contributions from the residents of these communities. As a result, these projects, although well-intentioned, often fail to meet the real needs and priorities of the communities. And by not allowing for real community participation in the planning process, these projects can simply contribute to the increasing sense of powerlessness felt by community residents.

By forming and participating in an effective and responsive CED organization, community residents can gain a sense of self-direction, becoming directly involved in activities that affect the economic conditions of their community. A major element of community-based development is community education. Through a CED organization, residents gain an understanding of what is needed to build a healthy community economy. With this understanding, community residents are able to meaningfully participate in the revitalization of their communities.

Of course, as this report has mentioned numerous times, CED organizations need support from both the public and private sectors in order to build their technical capacities and undertake actual community development projects and activities. Resources provided to CED organizations by government, private corporations, and foundations are not giveaways, they are investments--investments in human capital, as well as in the economic development of low-income communities. Effective community development requires a public/private/community partnership in which each side respects the important roles the others play. To be successful in their development efforts, community residents do not need things done for them, they need the resources to do things for themselves.

The economic and social benefits which accrue from the successful operations of a CED organization are not only important to the community and its members, but to

government and private interests outside the immediate community as well. A growing community economy results in increased tax revenues and increased attractiveness of the community as a location for additional private investment and development. In a more intangible but equally important way, everyone within the community, and in surrounding areas, benefits from the healthy social environment stimulated by meaningful community participation in the revitalization process.

Community-based economic development is a long-term approach to addressing the problems of low-income communities. While CED organizations operate with a social purpose in mind, they are very cognizant of the need for sound management and for following accepted business practices. This is true for the organizations themselves and it also guides the way they approach their development projects and activities. The businesses that CED organizations directly or indirectly assist and develop are viable business ventures. The jobs that are created are long-term jobs.

A number of organizations have begun to explore ways they can share their development expertise in order to expand their efforts. This represents an important step in the increasing sophistication of the CED movement. Collectively, CED organizations throughout the state have acquired a wide range of community development skills and experience. Up to now, they have been unable to use their collective expertise effectively because they do not have any formal ties with each other. Each organization has worked independently of the others to establish itself and acquire the technical capacity and financial resources it needs. By developing a vehicle through which they can work together, each organization can gain access to a greater range of development expertise than it could obtain individually. Through this type of cooperative arrangement, the organizations may also be able to gain access to sources of project capital which would be beyond the reach of individual organizations.

Recently, there has been a great deal of discussion among state leaders about ways to stimulate economic development in Minnesota. The records of the organizations included in this report demonstrate the potential of community-based organizations to play a significant role in a statewide economic development strategy. Although many of their efforts have been fairly small scale, when taken as a whole, these organizations have achieved significant results. And they have made these accomplishments in low-income communities where the need for economic development and job creation is greatest, but also where results are the most difficult to achieve. With continued support, community-based economic development efforts will continue to expand, benefiting not only individual communities and their residents, but the state as a whole.

APPENDIX A. STUDY METHODS

The concept for this project originated with Warren Hanson, Business Development Director for the West Bank Community Development Corporation. Mr. Hanson also served as an advisor during the collection and analysis of the information presented in this report.

Originally, we began with a list of seven CED organizations. Additional organizations were added as we became aware of them. Initial contacts were made with twenty-four organizations. Ten organizations were later eliminated from the study as we determined they were either not community-based, or not directly involved in economic development.

Research for this study began with an eight page questionnaire which was mailed to each participating organization. The questionnaire covered a wide range of topics including organization history, board and staff composition, funding sources, economic development projects and programs, organizational needs, and future plans. The questionnaire was followed by personal interviews with staff or board members from each of the organizations. (These interviews were conducted by telephone for organizations outside the Twin Cities.) In most cases, numerous follow-up interviews were conducted. When available, annual reports and other documentation from each organization were also reviewed.

The information and data presented in this report on organization activities, project costs, sources of financing, and jobs created or retained were provided by staff or board members from the organizations themselves. In a few cases, government agencies and private corporations were contacted in order to gain complete information on certain projects.

APPENDIX B. PARTICIPATING ORGANIZATIONS

American Indian Business Development Corporation, Minneapolis

AIBDC was incorporated in 1975 by a group of community residents. The organization was directly responsible for planning and developing a shopping center which has brought five new retail stores into the community. AIBDC currently has two staff members.

Community Development of Little Falls, Inc.

The Community Development of Little Falls, Inc. serves all of Morrison County. It was incorporated in 1968, first hired staff in 1981, and now has three employees. Since 1981 the development corporation has been involved in three start-ups, one buy-out, three expansions, several feasibility studies, and a variety of education and public relations activities to enable local government, community members, and financial institutions to respond to economic development possibilities in the area.

HELP Development Corporation, St. Paul

HELP was incorporated in 1971 primarily through the efforts of community residents and local business owners. Through the Model Cities Program, the organization helped a number of small businesses obtain financing for improvements and expansions. HELP was also involved in developing a community shopping center. Currently the organization has one part-time staff person and is working to re-build itself following a number of internal and external problems.

Minneapolis North Community Development Corporation, Minneapolis

Minneapolis North CDC was incorporated in 1980 by a group of community residents and local businesspeople. The organization has been directly involved in obtaining financing for the rehabilitation and expansion of two existing business facilities. Currently, the organization is working to become certified under the SBA 503 loan program. At present, the organization has no full-time staff.

Peoples Community Enterprises, Duluth

PCE was incorporated in 1978 by a group of people who worked with the Duluth Community Action Program. The organization provides technical assistance and other services to small businesses and was responsible for creating a small worker-controlled manufacturing firm. PCE is a member of the Duluth Business Assistance Corporation

which is currently in the process of establishing a small business revolving loan program. PCE has a staff of two.

Phillips Neighborhood Improvement Association, Minneapolis

PNIA was formed in 1962 by a group of active community residents and has performed a wide range of activities in the neighborhood. The organization has worked closely with Honeywell Corporation to start a bindery firm in the community. A sister organization, the Phillips Community Development Corporation, is active in housing rehabilitation in the community. Together, PNIA and PCDC have three staff members.

Powderhorn Development Corporation, Minneapolis

PDC was incorporated in 1969 as a Local Development Corporation by a group of local business owners with support from the Model Cities program. Through 1975, the organization assisted small businesses in obtaining needed financing through the SBA 502 loan program. Since 1976, PDC has been active in commercial redevelopment in the community through a number of projects involving the acquisition and sale of vacant commercial buildings and property. The organization has also provided technical assistance to a number of community businesses. In addition, PDC has developed land use and design plans for several commercial areas within the community. Currently, PDC has one staff member.

Project for Pride in Living Industries, Minneapolis

PPL Industries, Inc. is a private non-profit minority vendor established in 1982 with an initial workforce of twenty-seven. The organization provides job experience to predominantly minority "hard-to-employ" through contracts with private industry for salvaging metals, assembly, packaging, hand bindery, microfilming, and rough carpentry.

Region II Community Development Corporation, Bemidji

Region II CDC was incorporated in 1977 by a small group of people with previous experience in community development. The organization has a staff of two. Region II CDC has obtained and packaged financing for numerous business development projects in small communities in north-central Minnesota, and also provides technical assistance to small businesses in the area.

University Avenue Development Corporation, St. Paul

UADC was incorporated in 1975 as a Local Development Corporation by a group of local business owners and the president of a local bank. The organization helped businesses obtain financing through the Small Business Administration 502 loan program and also helped to finance storefront improvements through a grant program. Currently, the UADC has no full-time staff. A sister organization, the University Avenue Development Council, is involved in indirect development activities within the community.

West Bank Community Development Corporation, Minneapolis

West Bank CDC was incorporated in 1975 by a group of active community residents. The organization has obtained and packaged financing for two small business start-ups and for building acquisitions and fixed improvements by a number of local businesses. In addition, the organization provides technical assistance to community businesses and has conducted a market study of the community. West Bank CDC is also involved in housing development and has a staff of four.

West Seventh Development Corporation, St. Paul

The West Seventh Development Corporation was incorporated in 1977 as a Local Development Corporation by a group of community business owners. Through the SBA 502 program, the organization obtained and packaged financing for one business start-up and six business expansions/relocations. The organization now provides technical assistance services to community businesses and, in cooperation with the city, has planned and implemented a public improvements program. The Development Corporation works jointly with the West Seventh Federation, a community resident organization. Together the organizations have a staff of three.

White Earth Community Development Corporation, White Earth

White Earth CDC was incorporated in 1981 by members of the White Earth Reservation Business Committee. The organization has been directly responsible for starting a garment manufacturing business and a saw mill on the reservation. White Earth CDC currently has a staff of one.

Whittier Alliance, Minneapolis

Whittier Alliance was incorporated in 1978 by a group of community residents and local businesspeople, with the help of the Dayton-Hudson Foundation. Through its revolving loan program, the organizations have provided financing for two new businesses,

and for equipment purchases and fixed improvements by three existing businesses. The organization has also helped small businesses finance storefront improvements through a grant program, and has worked with the city to implement a public improvements project for the community. The organization has six staff members, some of whom work on housing development and other community activities.

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